

## Message Text

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15

ACTION EUR-12

INFO OCT-01 EA-10 NEA-09 IO-10 ISO-00 AID-05 CIAE-00

COME-00 EB-07 FRB-01 INR-07 NSAE-00 TRSE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-02 H-02 DODE-00 PA-02 USIA-15

PRS-01 AGR-10 TAR-01 /140 W  
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R 160150Z APR 75

FM AMEMBASSY LONDON  
TO SECSTATE WASHDC 0244  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY LUXEMBOURG  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY THE HAGUE  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
USMISSION GENEVA  
AMEMBASSY NEW DELHI

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DEPARTMENT PASS TREASURY AND FRB  
NEW DELHI PASS SECRETARY SIMON'S PARTY

EO.O 11652: N/A

TAGS; ECON, UK

SUBJECT: U.K. BUDGET -- INTERNATIONAL ASPECTS

SUMMARY: IN HIS BUDGET PRESENTATION; CHANCELLOR HEALEY  
PLACED A GREAT DEAL OF EMPHASIS ON BRITAIN'S INTERNATIONAL  
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ECONOMIC INTERDEPENDENCE. HE CITED NOT ONLY EXPECTED  
EFFECTS OF A RECOVERY OF WORLD TRADE ON THE BRITISH ECONO-

MY, BUT ALSO THE IMPORTANCE OF MAINTAINING BRITAIN'S EXPORT COMPETITIVENESS IN LEADING DOMESTIC RECOVERY. HEALEY FORECAST A ONE BILLION POUND REDUCTION THIS YEAR IN THE CURRENT ACCOUNT DEFICIT AND A SUBSTANTIAL SURPLUS IN THE NONOIL TRADE ACCOUNT. SPECIFIC MEASURES WERE ANNOUNCED TO SHIFT RESOURCES TO EXPORT INDUSTRIES: GUARANTEED LOANS FOR PRE-SHIPMENT FINANCE ON LARGE EXPORT PROJECTS; AMENDMENTS TO THE PRICE CODE TO ASSIST COMPANIES INVOLVED IN THE PRODUCTION OF EXPORT GOODS; INCLUDING AN INCREASE IN THE RATE OF INVESTMENT RELIEF. WHILE THERE WERE NO SPECIFIC POLICIES AIMED AT RESTRICTING IMPORTS, THE INCREASE IN VAT FROM EIGHT PERCENT TO 25 PERCENT ON LUXURY ITEMS WILL UNDOUBTEDLY HAVE A SIZEABLE IMPACT ON IMPORTED GOODS. TOO, THE ANNOUNCED INCREASE IN EXCISE TAXES ON WINES, SPIRITS AND TOBACCO WILL CUT INTO THE IMPORT MARKET. IN WHAT SOME OBSERVERS BELIEVE AN ALLUSION TO THE POSSIBILITY OF FUTURE IMPORT CONTROLS, THE CHANCELLOR WARNED THAT IF THE STRONGER COUNTRIES FAIL TO EXPAND THEIR ECONOMIES SUFFICIENTLY, HE WOULD HAVE TO CAREFULLY CONSIDER WHAT MEASURES SHOULD BE TAKEN TO MAINTAIN EMPLOYMENT IN BRITAIN. ONE ELEMENT OF THE PUBLIC EXPENDITURE CUTS WILL BE A REDUCTION IN THE ANTICIPATED LEVEL OF OVERSEAS AID EXPENDITURE INCREASES. THE CHANCELLOR ALSO TIGHTENED THE FOREIGN EXCHANGE CONTROL ACT TO PROHIBIT THE SALE OF GOLD COINS TO UK RESIDENTS. THIS WILL RESULT AT CURRENT RATES IN AN ESTIMATED 300 MILLION POUNDS BALANCE OF PAYMENTS SAVINGS ANNUALLY. NO MENTION WAS MADE OF THE REMOVAL OF 8 PERCENT VAT ON FROZEN ORANGE JUICE CONCENTRATE. END SUMMARY

1. OVERVIEW OF BRITAIN'S INTERNATIONAL POSITION.  
BRITAIN'S 3,800 MILLION POUND CURRENT ACCOUNT DEFICIT IN 1974 WAS EQUIVALENT TO MORE THAN 5 PERCENT OF GNP. IN EFFECT, BRITAIN CONSUMED 5 PERCENT MORE THAN WAS PRODUCED. WHILE THERE WAS LITTLE DIFFICULTY FINANCING THIS DEFICIT IN 1974, THE CHANCELLOR SIGNALLED "A DANGER IN FUTURE THAT THE SUPPLY OF UNCONDITIONAL FUNDS MAY PROVE INADEQUATE TO MEET OUR NEEDS. IF WE ARE TO GO ON ATTRACTING SUCH FUNDS THEIR OWNERS MUST BELIEVE THAT THE VALUE OF THE MONEY THEY  
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HAVE PLACED WITH US IS NOT THREATENED BY THE CONSEQUENCES OF OUR POLICY ACTIONS OR INACTIONS." HE LATER STATED THAT SHOULD THERE DEVELOP A LACK OF CONFIDENCE AND PATIENCE ON THE PART OF BRITAIN'S CREDITORS, THE COUNTRY WOULD FACE THE "APPALLING PROSPECT OF GOING DOWN IN A MATTER OF WEEKS TO THE LEVEL OF PUBLIC SERVICES AND PERSONAL LIVING STANDARDS WHICH WE COULD FINANCE ENTIRELY FROM WHAT WE EARN. I DO NOT BELIEVE THAT OUR POLITICAL OR SOCIAL SYSTEM COULD STAND THE STRAIN."

IN A BASIC ATTACK ON THE SCALE OF WAGE AND SALARY

INCREASES IN THE SECOND HALF OF 1974, AS BEING THE PRIMARY

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CIEP-02 SS-15 STR-04 TAR-01 TRSE-00 USIA-15 PRS-01

SP-02 OMB-01 /138 W

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R 160150Z APR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0245

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

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CAUSE OF INFLATION, HEALEY POINTED TO THE LOSS OF INTER-  
NATIONAL COMPETITIVENESS WHICH WOULD (OR WILL) RESULT IF  
BRITAIN'S RATE OF INFLATION CONTINUES AT A LEVEL IN EXCESS  
OF HER MAJOR TRADING PARTNERS. AS A CONSEQUENCE OF THE

LOSS OF INTERNATIONAL COMPETITIVENESS, HE STATED, "UNLESS WE WERE WILLING TO CONTEMPLATE A DOWNWARD DRIFT IN OUR EXCHANGE RATE WHICH WOULD INCREASE OUR DOMESTIC COST AND UNCLASSIFIED

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PRICES FURTHER STILL, WE WOULD FIND IT IMPOSSIBLE TO PREVENT OUR BALANCE OF PAYMENTS FROM ACTUALLY DETERIORATING . . ." IN OTHER WORDS, LARGE WAGE DEMANDS, NOT EXTERNAL FACTORS, ARE THE ROOT CAUSE OF BRITAIN'S HIGH RATE OF INFLATION AND THE EROSION OF ITS INTERNATIONAL POSITION.

TURNING TO THE ACCUMULATION OF OIL-PRODUCERS' SURPLUSES, HEALEY SEEMED TO ACCEPT RECENT ESTIMATES THAT THE CUMULATIVE SURPLUS MAY BE ON THE ORDER OF \$250 BILLION (IN 1974 PRICES) BY 1980. IF THESE ESTIMATES ARE CORRECT, HE STATED, THE STRAINS ON THE INTERNATIONAL MONETARY SYSTEM WILL BE MUCH EASIER TO HANDLE, AIDED TO A GREAT DEGREE BY THE IMF OIL FACILITY AND THE OECD FINANCIAL SUPPORT FUND.

2. ELIMINATION OF CURRENT ACCOUNT DEFICIT. HEALEY ATTACHED A GREAT DEAL OF IMPORTANCE IN HIS PRESENTATION OF THE STRATEGY OF THE BUDGET TO THE EXTERNAL ACCOUNTS. AT ONE POINT, HE STATED THAT THE "MAIN PURPOSE" OF THE BUDGET IS TO ENSURE THAT THE ECONOMY WILL BE ABLE TO TAKE FULL ADVANTAGE OF THE STRONG RECOVERY IN WORLD TRADE "WE EXPECT NEXT YEAR." HE FORECAST A 1 BILLION POUND REDUCTION IN THE CURRENT ACCOUNT DEFICIT THIS YEAR AND A SUBSTANTIAL SURPLUS ON THE NON-OIL TRADE ACCOUNT. THE IMPROVEMENT CAN ONLY BE REALIZED BY THE REGENERATION OF INDUSTRY, ESPECIALLY THOSE ENGAGED IN THE PRODUCTION OF MANUFACTURES FOR EXPORT.

3. SHIFT OF RESOURCES TO EXPORT INDUSTRIES AND EXPORT PROMOTION. ALTHOUGH THE DETAILS WERE LEFT UNSPECIFIED, THE CHANCELLOR ANNOUNCED THREE PROGRAMS DESIGNED TO INCREASE EXPORTS: (1) TO FACILITATE THE PROVISIONS OF WORKING CAPITAL FOR EXPORTS, THE EXPORT CREDITS GUARANTEE DEPARTMENT WILL PROVIDE FACILITIES TO GUARANTEE LOANS FOR PRE-SHIPMENT FINANCE ON LARGE EXPORT PROJECTS. (NOTE: THIS IS IN ADDITION TO THE COST-INFLATION SCHEME ANNOUNCED EARLIER.) DETAILS ARE NOT YET AVAILABLE. HEALEY SAID THEY WILL BE ANNOUNCED IN A FEW DAYS' TIME. EMBASSY WILL, OF COURSE, REPORT FURTHER WHEN THEY ARE. (2) AMENDMENTS TO THE PRICE CODE TO ASSIST THE LIQUIDITY OF COMPANIES WHICH ARE PRIMARILY INVOLVED IN THE PRODUCTION OF EXPORT GOODS. (3) UNDER THE PRICE CODE, AN INCREASE FROM 17-1/2 UNCLASSIFIED

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PERCENT TO 20 PERCENT IN THE RATE OF INVESTMENT RELIEF AND  
EXTENDING THE RELIEF TO COVER COMMERCIAL VEHICLES.

4. EFFECTS ON IMPORTS OF VAT AND EXCISE TAX INCREASES.  
WHILE IT IS DIFFICULT TO QUANTIFY WITHOUT KNOWLEDGE OF THE  
PRICE ELASTICITIES AND RELATIVE IMPORT SHARES, THE IN-  
CREASE IN VAT FROM 8 TO 25 PERCENT ON LUXURY ITEMS AND  
THE EXCISE TAX INCREASES OF 64 PENCE PER BOTTLE OF SPIRITS  
AND 24 PENCE PER BOTTLE ON WINE AND 7 PENCE INCREASE ON  
TOBACCO PRODUCTS SHOULD HAVE A MEASURABLE IMPACT ON IM-  
PORTS. A LARGE NUMBER OF THE ITEMS CLASSIFIED AS LUXURIES  
I.E. CAMERAS, JEWELS, FURS, STEREO EQUIPMENT AND ELECTRIC-  
AL APPLIANCES, ARE IMPORTED PRODUCTS. NEARLY ALL OF THE  
WINE AND TOBACCO CONSUMED IN THE UK ARE IMPORTED.  
ALTHOUGH THE MEASURES CAN NOT BE CLASSIFIED AS IMPORT  
CONTROLS, THEIR EFFECTS SHOULD BE REFLECTED IN THE REDUC-  
TION OF IMPORTS OF SUCH ITEMS.

5. IMPORT RESTRAINTS. WHILE THE BUDGET DID NOT CONTAIN  
ANY SPECIFIC PROVISION PERTAINING TO THE REGULATION OR  
DIRECT CONTROL OF IMPORTS, THE CHANCELLOR MADE SEVERAL  
PASSING COMMENTS IN THIS DIRECTION: 'IT IS IMPORTANT THAT  
WE SHOULD DO ALL WE CAN TO ECONOMIZE ON IMPORTS, AND I  
HOPE THAT ALL THOSE WHO ARE CONCERNED WITH IMPORTS, IN-  
CLUDING THE PROVIDERS OF CREDIT, WILL HAVE OUR BALANCE OF  
PAYMENTS ALWAYS IN THEIR MINDS.' ALLUDING, SOME BELIEVE  
TO THE POSSIBILITY OF IMPORT CONTROL MEASURES IN THE  
FUTURE, THE CHANCELLOR STATED IN HIS SUMMATION, "... IF  
THE STRONGER COUNTRIES FAIL TO EXPAND THEIR ECONOMIES  
SUFFICIENTLY, I SHALL HAVE TO CONSIDER VERY CAREFULLY WHAT  
MEASURES I SHOULD TAKE TO MAINTAIN EMPLOYMENT IN BRITAIN."

6. FOREIGN AID. IN CONJUNCTION WITH OTHER MEASURES TO RE-  
DUCE PUBLIC EXPENDITURE, PLANNED INCREASES IN FOREIGN AID  
ARE TO BE REDUCED OVER THE NEXT TWO FISCAL YEARS. PLANNED

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CIEP-02 SS-15 STR-04 TAR-01 TRSE-00 USIA-15 PRS-01

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R 160150Z APR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0246

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

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INCREASES WILL BE REDUCED BY 10 MILLION POUNDS IN FISCAL YEARS 1975/76 AND BY A LIKE AMOUNT IN 1976/77. WHILE THIS DOES NOT REPRESENT AN ABSOLUTE DECREASE IN AID FUNDS, IT DOES MEAN A REDUCTION IN THE RATE OF INCREASE.

7. GOLD COINS. THE CHANCELLOR ANNOUNCED THAT EFFECTIVE IMMEDIATELY, UK RESIDENTS MAY NOT PURCHASE - GOLD COINS  
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AND GOLD MEDALS, MEDALLIONS, TABLETS OR OTHER PIECES IN PICTORIAL RELIEF OR BEARING INSCRIPTIONS - MINTED OR MADE AFTER 1837. SPECIFICALLY, DEALERS ARE PROHIBITED FROM SELLING GOLD COINS TO UK RESIDENTS, AND THE IMPORTATIONS OF GOLD COINS WILL BE SUBJECT TO INDIVIDUAL LICENSING. THE CHANCELLOR STATED THAT HE HAD REFRAINED FROM APPLYING SIMILAR RESTRICTIONS LAST AUTUMN WHEN IT APPEARED THAT THE "FASHION" TO HOLD SUCH COINS WOULD DIE DOWN AND THE RELAXATION OF US RESTRICTIONS ON PRIVATE GOLD HOLDINGS WOULD

REVERSE THE SPECULATIVE TREND. THE REVERSAL HAD NOT HAPPENED AND GIVEN THE BALANCE OF PAYMENTS EFFECTS "THE TIME HAS COME TO STOP THIS DRAIN," WHICH AMOUNTED TO ABOUT 75 MILLION POUNDS DURING FIRST QUARTER 1975. ALTHOUGH NOT REFERRED TO DIRECTLY, THE SALE OF SOUTH AFRICAN KRUGERRANDS WAS THE OBJECT OF THIS MEASURE. IT IS ESTIMATED THAT THIS ALTERATION OF THE EXCHANGE CONTROL ACT WILL YIELD A 300 MILLION POUND BALANCE OF PAYMENTS SAVING ANNUALLY.

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